

February 9, 2015

## Natural Gas Trends

### Highlights

#### US rig count drops to lowest level since April 2010

Total US rig count has suffered under the low-commodity-price environment over the past few months, putting into question the feasibility of continued production in once-prolific basins. As prices of WTI and Brent crude have collapsed since a key OPEC meeting following the Thanksgiving holiday, total US rigs have plummeted by just over 20%, or 455 rigs, to 1,696 during the week ending January 30. The US rig count hasn't been this low since the beginning of April 2010. Total rig count, according to the data compiled by Platts unit Bentek Energy, hit a two-year high for the week ending October 24, 2014, at 2,150. The previous high mark was set April 27, 2012, at 2,160 rigs.

Although OPEC's decision to keep production flowing impacted Brent and WTI pricing dramatically over the following weeks, the decline in rigs lagged until the New Year. The sharpest week-on-week declines hit toward the end of January. Total US rigs dropped in comparison to the weeks of January 23 and 30 by 90 and 80 rigs, respectively, compared with earlier weekly average declines of 24 rigs. Rigs targeting dry gas production have steadily dropped – roughly two per week – since November 2011, despite a small gain during the summer of 2013, as crude and natural gas liquids pricing incentivized producers to chase returns associated with more liquid-rich acreage.

In total, rigs targeting natural gas dropped from a monthly average in November 2011 of 635 to 251 on January 30, 2015. Natural gas rigs have remained relatively flat since the OPEC meeting, shedding about 15 rigs through the end of January. Over the same time frame, rigs targeting oil and gas skyrocketed, increasing from a November 2011 average of 830 rigs to a recent high of 1,186 rigs for the week ending December 18, 2014. Since then, the count has dropped by 228 to 958 rigs. Rigs specifically targeting oil have declined as well. For the week ending November 28, 2014, oil rigs were at a count of 702, and have since plummeted to 486 rigs, or 23 rigs per week, since the OPEC announcement.

Over that period, rigs declines have hit hardest Texas and the Midcontinent, where basins such as the Permian, Eagle Ford and Anadarko have declined by 36, 22, and 48, rigs, respectively. The Marcellus Dry and Wet windows have declined by about two and three rigs, respectively, while the Utica has actually increased by 13 rigs during that period. Further north in the Williston, the count has shed 10 rigs, while the Denver-Julesburg and Powder River basins also have declined by seven and six, respectively. According to Bentek, US gas production increased by 5 Bcf/d to 70.7 Bcf/d during fourth quarter 2014 compared to the same period in 2013. Looking ahead, Bentek expects production to average roughly 73 Bcf/d during the fourth quarter of 2015, an increase of about 2.3 Bcf/d. Despite prevalent downward adjustments to many 2015 CAPEX budgets, production is expected to continue to grow, albeit at a slower rate through the end of 2015. Source: Platts Gas Daily

### Data

- March 2015 Natural Gas Futures Contract (as of February 6), NYMEX at Henry Hub closed at \$2.579 per million British thermal units (MMBtu)
- March 2015 Light, Sweet Crude Oil Futures Contract WTI (as of February 6), closed at \$51.69 per U.S. oil barrel (Bbl.) or approximately \$8.91 per MMBtu

#### Last week: Texas warmer than normal

For the week beginning 2/1/15 and ending 2/7/15, heating degree days (HDD) were lower than normal (warmer) on average for the week and for the year to date for most Texas cities shown.

Source: [www.cpc.ncep.noaa.gov](http://www.cpc.ncep.noaa.gov)

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 2/7/15	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	149	-43	2589	-10%
Austin	118	24	1395	15%
DFW	152	22	1650	-4%
El Paso	78	-44	1563	-16%
Houston	103	16	1071	-3%
SAT	98	8	1076	-8%
Texas**	120	12	1440	0%
U.S.**	205	7	2727	-4%

\* A minus (-) value is warmer than normal; a plus (+) value is cooler than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which HDDs are calculated.  
\*\* State and U.S. degree days are population-weighted by NOAA.

-999 = Normal Less Than 100 or Ratio Incalculable

#### Last week: U.S. natural gas storage at 2,428 Bcf

For the week ending 1/30/2015 working gas in storage decreased from 2,543 Bcf to 2,428 Bcf. This represents a decrease of 115 Bcf from the previous week. Stocks were 468 Bcf higher than last year at this time and 29 Bcf below the 5 year average of 2,457 Bcf.

Source: <http://ir.eia.gov/ngs/ngs.html>

U.S. WORKING GAS IN STORAGE				
Region	Week ending 1/30/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,194	1,281	-87	-1.8%
West	371	375	-4	4.8%
Producing	863	887	-24	-2.7%
Lower 48 Total	2,428	2,543	-115	-1.2%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

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## Last week: U.S. gas rig count down for the week

The gas rig count for the U.S. was down five for the week and down 37 when compared to twelve months ago. The total rig count for the U.S. was down 87 from last week and down 244 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

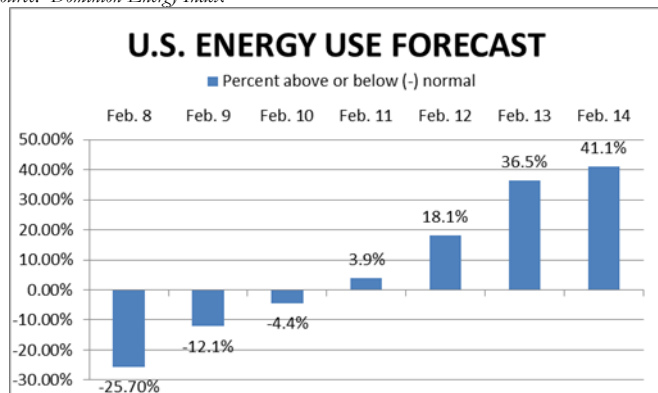
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 2/6/2015	+/- prior week	Year ago	+/- year ago
Texas	654	-41	845	-191
U.S. gas	314	-5	351	-37
U.S. oil	1140	-83	1416	-276
U.S. total	1456	-87	1771	-315
Canada	381	-13	621	-240

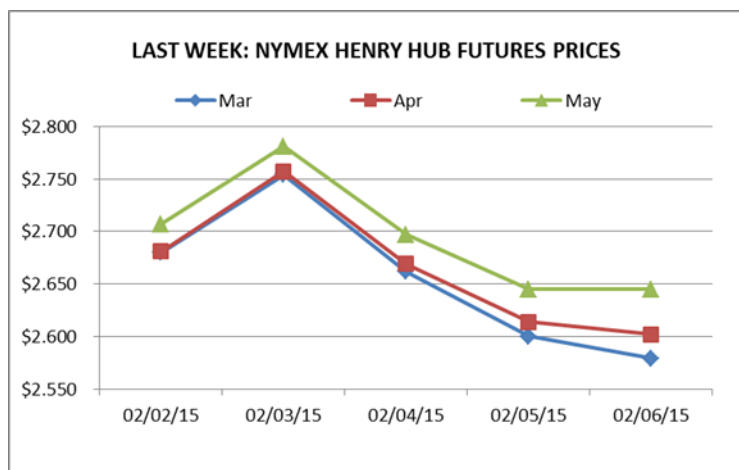
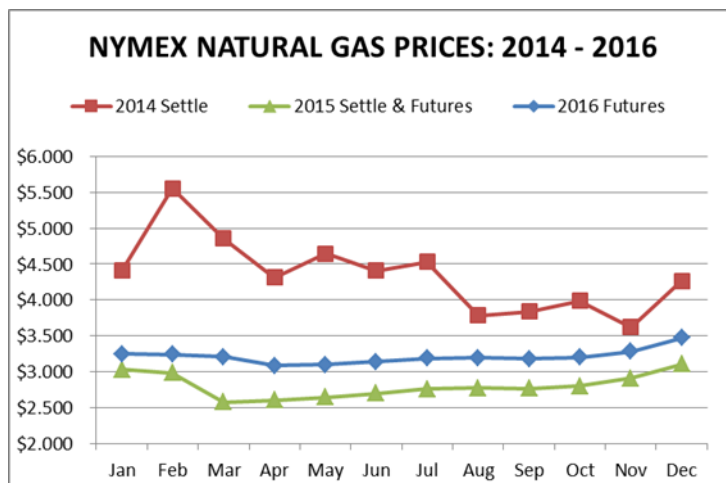
## This week: U.S. energy varies this week

U.S. energy use is predicted to increase throughout the week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan. and futures prices for the remainder of the year.



## NATURAL GAS PRICE SUMMARY AS OF 2/6/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US March futures				
NYMEX	\$2.579	-\$0.112	-\$2.276	\$2.804